

# Arizona Tax Certificate Process

## What are tax certificates (Certificates of Purchase)?

Tax due dates and delinquency dates are best understood by example. In Arizona, one half of the property taxes become due October 1, and the second half the following March 1. The first half of the taxes become delinquent if not paid by 5:00pm on November 1 (of 2004 for example), and the second half become delinquent at 5:00pm on May 1 (of the following year, 2005). By the following December (2005), the treasurer in every Arizona county prepares a list of the properties with delinquent taxes. The list is published in January or February (2006) and delinquent notices are sent to the homeowners stating that a tax certificate will be auctioned on a specified date if the taxes are not paid.

The tax certificate's face amount consists of the sum of the following: delinquent real estate tax (may include previous years delinquent taxes, penalties and costs), interest from the date of the delinquency, advertising penalty fee, a charge for the issuance of the tax certificate, and the "Taxpayer Information Fund" fee.

Tax certificates are a high priority lien against property which means there are very few other claims against a property which would be paid before the tax certificate lien. It even supersedes some IRS liens.

## The Auction

The tax certificate auction must take place during the month of February. (Note: tax certificates and the auction of them are governed by Title 42, Chapter 18 of the Arizona Revised Statutes. All requirements mentioned in this document come from Chapter 18 without the legalese).

**To make a simplified analogy, think of the purchase of a tax certificate as a loan to the property owner. In return, the investor receives interest on the money loaned.**

The tax certificate itself conveys **no property rights**. It is simply a "loan" carrying an interest rate. However, if the certificate is not redeemed at the end of three years, the certificate holder does have the right to foreclose on the property and take possession after taking all the proper steps.

The county treasurer publishes the delinquent tax list and the auction notice at least one time in a newspaper of general circulation in the county. The publication is at least two weeks but not more than three weeks before the date of sale.

The interest on a certificate ranges from 0 to 16%. Bids are entered with the certificate going to the bidder willing to take the lowest interest rate. Simple interest accrues on a monthly basis. If the certificate carries an interest rate of 12%, then interest will accrue at

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1% every month until the certificate is redeemed. If the certificate is not sold, it becomes the property of the state, bears an interest rate of 16%, and may be purchased by visiting the treasurer's office. Most counties today do not issue paper certificates. The certificate is kept as an electronic file at the treasurer's office.

### **Now you own a tax certificate, so what can happen next?**

When the owner redeems the certificate, they pay the delinquent taxes, interest, and assorted fees and costs, and a check is sent out with a notice to the certificate holder.

The certificate can be sold and transferred to another name.

If subsequent taxes become delinquent, the certificate holder may pay those and add them to the existing certificate at the original interest rate after June 1 (after the second half taxes have become delinquent but before they go to auction). Some treasurers interpret the statutes in such a way that they will only allow one Certificate of Purchase to exist on a property at one time. As a result, an individual buying the current year's certificate must redeem any outstanding certificates as part of the process. Paying "subtaxes" prevents the early redemption of what may be a profitable investment.

After three years, if the delinquent taxes have not been paid, the certificate holder has the right to foreclose on the property for monies owed.

If the certificate holder discovers that they really don't want to own the subject property (it might have turned out to be an environmental hazard site or a home that has burned down), and ten years pass without the certificate being redeemed or the certificate property being foreclosed, the certificate expires worthless.

**The entire investment in the certificate is lost. Certificate buyer beware. Know what you are purchasing.**